TEACHERS' PENSION PLAN

Plan milestones • Fast facts • You asked us

pensionwise

A Newsletter for Ontario Teachers • **Fall 2005** • **Issue 11**

Retirement security

Keeping the plan healthy will ensure young teachers like Shahana can enjoy retirement security decades from now.

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Grimsby teacher becomes 100,000th pensioner

Donna knows what it means to retire from work, but not from life. The former secondary school teacher from Grimsby began a new life as our 100,000th pensioner with the same boundless energy she brought to the classroom and the tennis courts.

"During the retirement process, I realized how valuable my pension is," said Donna. "Most women who began their careers in 1972 had limited options. If I hadn't gone into teaching, I wouldn't have the pension security I enjoy today."

PENSION PROVIDES SECURITY

That security will enable Donna to travel with her husband, also a retired teacher, and to enjoy sports ranging from curling to tennis. Their first big trip will take them to Australia to visit one of their daughters.

Like many members, Donna used iAccess Web, our secure member website, to plot out different retirement scenarios. Her decision to retire was both tough and exciting. At her last staff meeting, she was surprised with an award of teaching excellence in recognition of her many accomplishments, often with special needs students.

About 4,000 other teachers have retired so far this year, raising the pensioner population to more than 100,000.

"Pension payments now total about $300 million a month, or $3.6 billion a year," said Rosemarie McClean, Senior Vice-President, Member Services. ■

Providing security of retirement income for members like Donna is what the Ontario Teachers' Pension Plan is all about.

Unreduced pension grows to $40,100 from $440 in 1927

The Teachers' Pension Plan was formed with little fanfare in 1917 as war raged in Europe and the worst pandemic in recorded history was about to explode.

Some 14,000 members joined the plan that first year with the promise of collecting a maximum $1,000 annual pension after 40 years of service. By 1949, the maximum annual pension had climbed to $3,000.

Today, a retiring teacher can expect to collect a pension for about 30 years, as long as the average teaching career. Total pension payments can often exceed $1 million, based on an average annual starting pension of $40,100 for a teacher retiring with the 85 factor. That's a far cry from the average $440 paid in 1927 when the first retired teacher began collecting a lifetime pension. ■

PENSION PLAN MILESTONES

1917
- Plan established with 14,000 members
- Unreduced pension available after 40 years of service
- No inflation protection, no survivor benefits, no refund of contributions
- Maximum $1,000 annual pension

1928
- Disability pension available after 15 years of credit
- Reduced pension available after 30 years of credit

1949
- Survivor pensions introduced for widows and fully dependent widowers
- Maximum annual pension $3,000

1954
- Pension based on last 10 years' average salary, rather than career-average salary

1966
- Contributions and benefits integrated with CPP
- Disability pension available after 10 years of credit
- Pensions based on best-7 years' average salary

1971
- Survivor pensions introduced for non-dependent widowers
- 90 factor introduced

COVER PHOTO: EVAN DION

Plan sponsors look at ways to maintain plan's long-term health

The Ontario government and Ontario Teachers' Federation (OTF) are looking at ways to keep your pension plan financially healthy so young teachers like Shahana can enjoy retirement security decades from now.

Despite excellent investment returns that increased the pension fund to $88 billion at the end of June, the pension plan reported a $19.4 billion funding shortfall in its last actuarial valuation in January. Simply put: future pension costs are growing much faster than plan assets.

To help bring the fund back into balance, the OTF told teachers in a Feb. 21 *Communiqué* that a contribution rate increase for teachers and the government is "unavoidable". The size and effective date of the increase, the first in 15 years, will be announced by the OTF and the government as soon as decisions are reached. The OTF and government, as sponsors of the pension plan, are responsible for setting contribution and benefit levels, while our job is to get good investment returns, pay pensions and provide quality service.

Pension plans must, by law, be fully funded over the long term. Being fully funded means having enough assets to pay pensions not only today, but 70 years from now when new teachers will be collecting monthly payments.

The most recent actuarial valuation of the plan showed benefits were 84 per cent funded last January, down from 94 per cent a year earlier.

For more information, visit our website at www.otpp.com or refer to the 2004 *Report to Members* you received last March. ■

Keeping the plan healthy will ensure young teachers like Shahana can enjoy retirement security decades from now.

FAST FACTS

56
Average retirement age

30
Expected years on pension

$40,100
Average starting pension for a teacher retiring with the 85 factor

PENSION PLAN MILESTONES

1976
- Annual inflation adjustments introduced

1984
- Pensions based on best 5 years' average salary
- Credit and salary annualized
- Survivor pensions available to common-law spouses
- Survivor pensions no longer terminated upon re-marriage

1990
- Independent corporation established to administer the plan and manage $17 billion in assets on behalf of 300,000 members

1998
- 85 factor introduced as a temporary benefit
- 10,000 retirement pensions added to pension payroll
- Survivor pensions provided to same-sex partners

2001
- 85 factor made permanent
- Members keep more of pension after age 65
- Reduced retirement pensions available at age 50
- Addition of 10-year pension guarantee

2005
- Pensioner population grows to 100,000
- Net assets increase to $88 billion in mid-June

Infrastructure delivers stable long-term returns

During one hectic week in April, your pension plan's infrastructure team signed two major deals, valued at more than $2.8 billion, to acquire foreign infrastructure assets.

Infrastructure, which includes essential services such as highways, pipelines, water delivery and electricity, is an ideal match for pension plans because it provides stable, long-term returns, linked to inflation.

"Two deals in a week is highly unusual and makes deal-making look easy," said Jim Leech, Senior Vice-President. "But the market is very competitive; many potential deals fall through because we refuse to pay more than we think an asset is worth."

Each bid involves hundreds of hours of research, skillful negotiations, thousands of miles of air travel and, sometimes, a healthy dose of good luck.

The first deal reached in April will transfer ownership of 10 power plants to your pension fund and investment partner AIG Highstar Capital II from Shell and the Bechtel Group.

"These state-of-the-art facilities, located around the world, have significantly lower emissions than older electricity generators and will complement the fund's growing infrastructure portfolio", Jim said.

The purchase, completed in the summer, cost $2.2 billion.

JIM LEECH, Senior Vice-President, said investments in infrastructure will grow as the fund seeks ways to provide reliable returns with low risk.

WATER SERVICES PURCHASED

The second deal, reached two days later, resulted in a 25 per cent stake in Northumbrian Water Group, a public company providing water and wastewater services in England. The investment is already proving profitable.

"Retired teachers in Ontario raised glasses of H.O to Northumbrian Water as the utility paid dividends into their collective pension pot on the back of sparkling full-year results," reported the Daily Telegraph in London on June 9.

"Dull as dishwater Northumbrian may be, but the Ontario Teachers' Pension Plan now looks savvy in its decision to cough up 250 m pounds ($615 million) for the 25 per cent stake held until April by French group Suez."

Jim said investments in infrastructure will continue to grow as we, like many other institutional investors, seek alternative ways to provide reliable returns with low risk.

For example, in June, we and two other partners completed the $7.25 billion acquisition of the Scotland and South of England gas distribution networks. We and Borealis Infrastructure Management Inc., an OMERS company, each hold a 25 per cent stake in a consortium that purchased the networks. (The other 50 per cent stake is held by a U.K company, Scottish and Southern Energy.)

The networks comprise 73,000 km of gas mains and deliver gas to about 5.6 million industrial, commercial and domestic customers. ■

DID YOU KNOW?

- Our infrastructure and timber assets produced a one-year rate of return of 17.8 per cent in 2004.
- Our investment in infrastructure increased more than a third last year.
- The fund owns infrastructure in Australia, Asia, Europe and North America.

Right asset mix needed to meet investment goals

Choosing the right asset mix is critical to achieving our investment goals. We allocate different proportions of the fund to different categories of assets – such as bonds, stocks and real estate – to achieve the long-term returns we need to pay inflation-protected pensions.

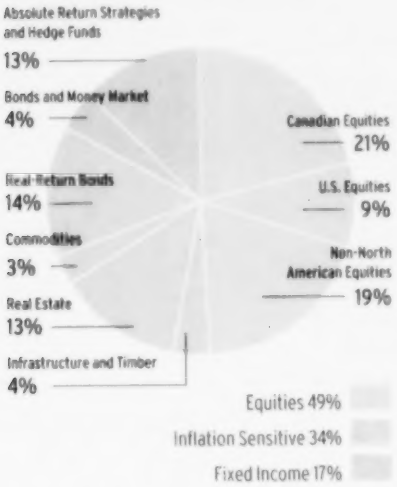
Our goal is to select an asset mix that balances risks and rewards, and avoids excessive volatility in the plan's assets. It also must be flexible to allow managers to take advantage of opportunities that arise in the markets.

For example, before 2001, the policy allowed investments in equities to vary between 50 and 70 per cent of net assets, with a target of 60 per cent. The flexibility allowed us to increase our investments in equities during the bull market of the mid-90s and to reduce them during the market downturn in 2000.

Today, our target exposure to equities is down to 45 per cent, reflecting our expectation for modest market returns during the next 10 years. ■

Actual Asset Mix of Fund

(as at Dec. 31, 2004)



Kearns named new director

Helen M. Kearns has been appointed to the Teachers' Pension Plan Board of Directors. She replaces Ralph Lean who served on the board for six years.

HELEN M. KEARNS

Helen is President of Kearns Capital Corp., a financial advisory firm she founded in 2000, and a former president of Nasdaq Canada. She began her career as an investment adviser with Richardson Greenshields. During 16 years with the firm, Helen held increasingly responsible positions, culminating as head of equity sales and trading. She then founded Kearns Capital Ltd., a boutique investment firm.

A native of Montreal, Helen served two terms as a director of the Toronto Stock Exchange. She sits on the boards of Bishop's University, the National Club, Women-in-the-Lead Inc. and the Scientific Research Foundation of the Multiple Sclerosis Society of Canada.

Fund buys largest U.S. pet food maker

The Teachers' pension fund is purchasing the largest manufacturer of private label pet food in the U.S. for $1 billion.

Based in Brentwood, Tenn., Doane Pet Food Co. serves many of the biggest pet food retailers in the U.S., Europe and Japan.

"This is a great company with excellent growth prospects," said Jim Leech, Teachers' Senior Vice-President. "No matter what the economic conditions, people still feed their dogs and cats."

Doug Cahill, Doane President and CEO, said the Teachers' fund has a "rich history" of investing in strong companies. "We're delighted with the fund's recognition of our tremendous potential and achievements."

The transaction is expected to close by mid-November.

Fund buys maker of Serta mattresses

Here's one investment that may allow you to sleep better at night.

The Teachers' pension fund and Ares Management LLC, a Los Angeles-based investment firm, are buying National Bedding Co., the largest maker of Serta mattresses.

"Serta is one of the oldest and best known names in the bedding industry. It has a very strong presence in the North American mattress market," said Teachers' Senior Vice-President Jim Leech.

The pension fund teamed up with Ares Management in 2003 to purchase U.S. travel luggage maker Samsonite. Other joint ventures with private investment firms in recent years include the purchase of Shoppers Drug Mart and Yellow Pages. ■

Online pension statement is a winner

Our interactive, online pension statement beat 29 entries from across Canada in a prestigious industry competition.

The competition, sponsored by *Benefits Canada* magazine, was organized to recognize "excellence in pension and benefits communication strategies."

The e-statement was judged best in its class for creativity, clarity of message, vibrancy, uniqueness and ease-of-use. It was also recognized for its ability to educate members on their pension benefits.

"The Ontario Teachers' Pension Plan is no stranger when it comes to offering innovative online communications," *Benefits Canada* wrote in its June 2005 issue.

Added one competition judge: "Hits the mark in providing an easy-to-use self-service option. The format of the pension statement and calculator are fantastic."

To view your own e-pension statement, visit www.otpp.com and log on to *i*Access Web, our secure member website. If you are not yet registered for *i*Access Web, telephone 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m., or complete the registration form found on www.otpp.com. Registration requires only five minutes and an active e-mail account.

If you register by the end of this year, your name automatically will be entered in a draw for a computer to be donated to the school of your choice. ■

Statement delivers current information

You can access your own real-time statement of pension benefits any time, as long as you are registered for *i*Access Web, our secure member website.

The e-statement, believed to be the first of its type in the world, was launched to provide members with an alternative to the annual printed *Personal Statement of Benefits*, mailed every fall to members who aren't registered for online services.

The interactive statement contains all the information found in the printed summary plus many other features, including:

- pension information that is always current;
- a tool to calculate your own pension estimates;
- an opportunity to update your personal profile; and
- an audio tour of the statement highlights.

"The e-statement is as up-to-date as the minute you sign in," said Rosemarie McClean, Senior Vice-President, Member Services.

"Paper statements can't provide that same level of service. They're outdated as soon as we print them." ■

Teaching after retirement rules to change

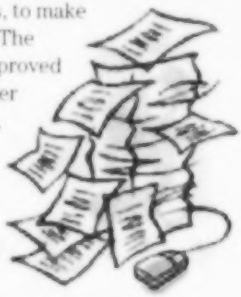
Planning to teach after retirement?

Beginning Sept. 1, 2006, teaching after retirement will be limited, once again, to 95 days in each of the first three school years in which you return to teach and 20 days each school year after that.

For more information, read the *Teaching after Retirement* fact sheet available on our website at www.otpp.com or view an audio-visual presentation on *Re-employment* on *i*Access Web TV. ■

Website sports new look

Take a few minutes to dive into www.otpp.com. The pension plan's website has been redesigned, with the help of teachers, to make it easier to use. The site features improved navigation, better search features, richer content, and a fresh new graphic look. Find out, among many other things:



- How you can buy back credit for a leave of absence
- Who sits on the Board of Directors
- Where the pension fund invests
- How our investments performed
- Why the plan has a funding shortfall
- How we intend to vote on proposals affecting the companies in which we invest
- What happens to your pension if you die. ■

What's new for teachers at *i*Access Web

We've enhanced *i*Access Web, our secure member website, in several key ways. You can now:

- Update your marital information, name, spouse's name, and spouse's date of birth online
- View two new audio-visual presentations – one on re-employment (after retirement); the other on the integration of your Teachers' pension with CPP
- Increase the size of text on your computer screen with a click of your mouse
- Retrieve your forgotten ID with greater ease. ■

You Asked Us...

PENSION STATEMENT FAQS

Q: When will I get my annual pension statement?
A: You should receive your *Personal Statement of Pension Benefits* by the end of November. If you register for *i*Access Web, you can access an interactive statement right now. (See page 6 article, *Statement delivers current information.*)

Q: Why should I not name my spouse as my designated beneficiary?
A: An eligible spouse has an automatic, legal entitlement to survivor benefits. Your beneficiary comes into play only if you have no eligible spouse when you die, you die before your pension starts, and a benefit remains to be paid after any dependent children have been taken into account. If you designate your spouse as beneficiary, you lose the opportunity to name who should be next in line for benefits after your spouse.

Q: How do I change the beneficiary named on my statement?
A: To update your beneficiary, complete, sign and return (by mail or fax) the *Designating a Beneficiary* form enclosed in your statement package.

Q: What is the difference between credit and qualifying years?
A: Credit is based on your actual teaching time and is used to calculate the amount of your pension. Qualifying years are the number of school years in which you've taught for at least a portion of the year. Qualifying years, combined with your age, determine when you're eligible to receive an unreduced pension.

Since 1997, you have received one qualifying year for every school year in which you worked for more than 10 days. However, if the first or last year of your teaching career is a partial year, you'll receive qualifying service for only the portion of the year worked. For instance, if you retired in January, you would receive a half-year of qualifying service for that teaching year.

COMMON QUESTIONS

Q: Can I get a list of the fund's investments?
A: A list of investments valued at more than $20 million is available in the investments section of our website at www.otpp.com. We have more than 2,000 investments throughout the world. Our largest holdings are in Canadian and Ontario government bonds.

Q: How do I notify you of my new e-mail or mailing address?
A: If you are registered for *i*Access Web, our secure member website, you can update your e-mail and mailing address online. Visit our website at www.otpp.com and follow the link to log on to the secure site. If you aren't registered, call 416-226-2700 or 1-800-668-0105.

Q: Will my adult disabled child qualify for survivor benefits?
A: If you don't have an eligible spouse, your adult child may qualify for a survivor pension if he or she is disabled and financially dependent on you when you die. No two cases are alike, so call us if you have questions. ■

ILLUSTRATION: KATHRYN ADAMS

Calling all former Independent Learning Centre employees

A recent decision may allow you to retroactively contribute to your pension for the time you taught credit courses for the Independent Learning Centre. Contributing retroactively could increase the size of your pension.

You may be eligible if you taught on an associate teacher contract:

- Less than full time before 1984; or
- Full time or less than full time between Aug. 31, 1984, and Jan. 1, 1990.

The centre, formerly run by the Ministry of Education and now part of TVOntario, provides distance education courses. To qualify to contribute, you must provide your associate teacher contract, pay stubs and proof of credit courses taught.

To apply for the opportunity, contact us for an information package at 416-226-2700 or 1-800-668-0105.

Service with the centre after 1989 is ineligible for retroactive contributions.

The deadline for applications is Dec. 31, 2005. ■

Pensionwise™ is published for members of the Ontario Teachers' Pension Plan at a cost of 19¢ a copy.

We appreciate your comments about anything you read in *Pensionwise*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989, or e-mail: dhanna@otpp.com

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This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.

TEACHERS' PENSION PLAN

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Test your pension parlance

Pension terms can stump anyone, from math teachers to financial advisers. See how pension literate you are by matching terms in the left column with definitions in the right column. (The answers are printed upside down.)

	TERM		DEFINITION
1	Vested	A	A pension plan that defines the benefit to be provided at retirement.
2	Credit	B	A professional who values pension assets and liabilities and the cost of providing pensions.
3	CPI	C	The reduction applied to your Teachers' pension at age 65 or if you collect a CPP disability pension.
4	Designated beneficiary	D	The lump sum you would need today to replace your future pension.
5	Survivor benefits	E	The person(s) or organization you name to receive death benefits if you die before your pension starts and you have no eligible spouse at the time of death.
6	Actuary	F	Entitled to future pension benefits.
7	CPP reduction	G	The pension benefits payable to your eligible spouse or dependent children when you die.
8	Defined benefit plan	H	A measure of the length of your teaching career used to determine when you qualify for an unreduced pension.
9	Commuted value	I	The actual time you worked while a member of the plan and one of two key variables that determines the amount of your pension.
10	Qualifying years	J	A measure of inflation produced by Statistics Canada.

ANSWERS: 1.F, 2.I, 3.J, 4.E, 5.G, 6.B, 7.C, 8.A, 9.D, 10.H.

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